

BUSINESS ENTERPRISE FUND'S SOCIAL IMPACT CREDIT SCORING SYSTEM

Business Enterprise Fund

Objective of the Good Practice:

To find an optimum way of incorporating a credit scoring system that considers good social impacts as well as industry standards for credit scoring. To improve efficiency and create consistency within the credit process and to find a way of providing quick decisions to clients.

Year of Inception of the Good Practice:

2014

Keywords:

Social Impact, Consistent Credit process, Greater Efficiency.

Overview of Good Practice

Business Enterprise Fund wanted to introduce a system that built upon its previous more subjective credit assessment process, which used more conventional forms of credit approval such as the CAMPARI system. However, the CAMPARI system was not always consistent and sometimes it resulted in bad decisions based upon the information provided by the investment manager. Business Enterprise Fund was therefore looking to remove the subjective elements of the credit assessment from the process and move it towards the objective approach that blended both social impacts as a weighting in the score - so not just a quick decision by a computer.

Innovativeness

Business Enterprise Fund has designed the system to incorporate social impacts such as jobs and businesses created together with personal and company financial data. The system was developed on the back of previous experience that showed that if a client has personal financial problems then the business always suffers at the same time. The learning adopted for the new system was designed to create a score that could be measured over time against business failures. This allows Business Enterprise Fund to move the threshold for passing scores up to improve the quality of the portfolio, if needed. The system combines social, personal, company and subjective data based on the performance of the business into a score that is marked out of 100.

Outcomes

Business Enterprise Fund can quantify how well the loan book will perform based upon the average scores of the loans distributed. For example, if the organisation wants investors to have an excellent loan book then the threshold can be increased, if investors are happy about impact then the threshold can be reduced. The process allows Business Enterprise Fund to budget more accurately given that, thanks to the scores, they are aware of the likelihood of loans being repaid as well as the yield they will get from the portfolio. Further, the process means more loans per investment manager which means that they can lend more without having to significantly increase the overhead.

Efficiency and Sustainability

The system has allowed Business Enterprise Fund to create an online portal where the data is put in by the client. Data relating to the company and the individual's personal financial data as well as some credit reference sources are then collected immediately. They are fed into the scorecard that has been designed to give an instant score out of 100. The client is therefore informed immediately of a decision, in principle subject to verification by an investment manager. If the score is above Business Enterprise Fund's agreed pass rate, then the loan goes onto drawdown. The information collected helps in providing data for the organisation's social impact assessments.

Institutional profile

Business Enterprise Fund has been lending for 14 years and covers the whole of the north of England. They manage funds on behalf of others as well as using their own funds.

Business Enterprise Fund is a not for profit business lending microfinance institution which uses creative finance to change communities for the better.

Type of Organisation

Non-Bank Financial Institution

Country

United Kingdom

Products & Services provided

- **Financial:** Business microloans, business loans
- **Non-financial:** Entrepreneurship training, mentoring

Gross Loan Portfolio

€ 10,627,000
(as of March 2018)

Number of clients

521
(as of March 2018)

Target Audience

Unemployed people or people on welfare, Ethnic minorities and/or immigrants, Youth, People excluded from mainstream financial services.

Organisation Website

<http://www.befund.org>

The process allows investment managers to process more loans and much more quickly. Further, Business Enterprise Fund is able to handle a larger number of enquiries. The data is consistent as it comes from the same sources and the cost per loan is significantly reduced. This process is also more efficient for the clients because the technology can be used to process loans from anywhere in the country without having to have a face-to-face meeting.

Lessons Learned

As lenders with a mission to improve the lives of the communities that Business Enterprise Fund serves, the system is good news as it allows them to have greater reach and larger impact without the normal additional costs that go with it. Further, it means that the organisation has developed a system that blends the best of both the normal credit assessment scoring systems with a more socially responsible system of assessing the credit worthiness of a business. It's easier and quicker for the client and it's an excellent way of managing the portfolio of the MFI as they can budget and manage the portfolio based upon the scores that they need in order to achieve the yields and outcomes they want.